

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2010-1-E - ORDER NO. 2010-____
JUNE ____, 2010

IN RE: Annual Review of Base Rates for Fuel Costs of Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.)))))	ORDER APPROVING AND ADOPTING ADJUSTMENT IN FUEL COST RECOVERY FACTORS
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This matter comes before the Public Service Commission of South Carolina (“Commission”) on the annual review of base rates for fuel costs of Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc. (“PEC” or “Company”) and for a determination as to whether any adjustments in the fuel cost recovery factors are necessary and reasonable. The procedure followed by the Commission in this proceeding is set forth in S.C. Code Ann. § 58-27-865 (Supp. 2009). Specifically, S.C. Code Ann. § 58-27-865(B) states in part: “Upon conducting public hearings in accordance with law, the [C]ommission shall direct each company to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the [C]ommission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period.”

The Parties to the case filed a Settlement Agreement prior to the hearing, attached hereto as Order Exhibit 1. The Parties then moved to schedule a hearing on Thursday, June 10, 2010, at which the Commission would perform its review of the evidence

supporting the proposed Settlement Agreement and decide whether the proposal would be approved. The Joint Motion was granted by the Commission.

By statute, the Commission is vested with the power and jurisdiction to supervise and regulate the rates and service of every public utility in this State and to fix just and reasonable standards, classifications, regulations, practices, and measurements of service to be furnished, imposed or observed, and followed by every public utility in this State. S.C. Code Ann. Section 58-3-140(A) (Supp. 2009).

Further, the Settlement Policies and Procedures of the Commission are pertinent to the matter before the Commission and consistent with its statutory duties. Section II of that document (“Consideration of Settlements”) states:

When a settlement is presented to the Commission, the Commission will prescribe procedures appropriate to the nature of the settlement for the Commission’s consideration of the settlement. For example, the Commission may summarily accept settlement of an essentially private dispute that has no significant implications for regulatory law or policy or for other utilities or customers upon the written request of the affected Parties. On the other hand, when the settlement presents issues of significant implication for other utilities, customers, or the public interest, the Commission will convene an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. Approval of such settlements shall be based upon substantial evidence in the record.

In accordance with its above-described statutory duties, the Commission held a public hearing at the offices of the Commission on June 10, 2010, at which the Commission considered the evidence in support of the proposed Settlement Agreement to

determine whether the proposal was just, fair and reasonable, consistent with the public interest, and in accordance with law and regulatory policy of the Commission. The Honorable Elizabeth B. Fleming, Chairman, presided. Len S. Anthony, Esquire, represented the Company. Shealy Boland Reibold, Esquire, represented the South Carolina Office of Regulatory Staff (“ORS”). Robert R. Smith, II, Esquire, represented Nucor Steel-South Carolina (“Nucor”). ORS, Nucor, and PEC are collectively referred to as the “Parties” or sometimes individually as “Party.”

At the beginning of the hearing, the Parties presented the Settlement Agreement, which was filed with the Commission on May 27, 2010 and admitted into the record as Hearing Exhibit 1. In the Settlement Agreement, the Parties represented to the Commission that they had discussed the issues presented in this case and determined that each Party’s interests and the public interest would be best served by settling all issues pending in this case in accordance with the terms and conditions contained in the Settlement Agreement.

PEC presented the testimonies of Bruce P. Barkley and Dewey S. Roberts, II. ORS followed PEC and presented the testimonies of Jacqueline R. Cherry and Michael L. Seaman-Huynh. The pre-filed testimony was entered into the record as if given from the stand and the exhibits of each witness were entered into the record without objection as Composite Hearing Exhibits 2, 3, 4, and 5, respectively.

PEC witness Bruce P. Barkley presented direct testimony on behalf of the Company and sponsored the Settlement Agreement. Mr. Barkley testified that the Agreement is in the public interest and allows PEC to recover its just, reasonable, and

prudent fuel costs in an equitable and fair manner and properly implements the intent and spirit of § 58-27-865. Dewey S. Roberts presented direct testimony on behalf of the Company. He testified PEC had prudently operated and dispatched its generation resources during the review period to minimize fuel costs.

Both of ORS's witnesses testified in support of the Settlement Agreement. Mrs. Jacqueline Cherry presented the results of the ORS Audit Staff's examination of PEC's books and records pertaining to the Fuel Adjustment Clause operation for the actual period of March 2009 through February 2010. The estimated months of the review period, March through June 2010, were also reflected in Mrs. Cherry's testimony. The Parties agreed to accept all adjustments as set forth in the testimony of ORS witness Cherry.

Mr. Seaman-Huynh testified in support of the Settlement Agreement, and presented the ORS Electric Department's findings and recommendations resulting from ORS's review of the Company's fuel expenses and power plant operations used in the generation of electricity for the period under review. The testimony supported the terms of the Settlement Agreement regarding the appropriate fuel factors for PEC to charge for the period beginning with the first billing cycle in July 2010 and continuing through the last billing cycle of June 2011, which are listed in the table below:

Class	Base Fuel Cost Component (cents/kWh)	Environmental Fuel Cost Component (cents/kWh)	Total Fuel Costs Factor (cents/kWh)	Increase for RECD
Residential	2.723	0.042	2.765	2.787 ¹
General Service (non-demand)	2.723	0.048	2.771	2.771
General Service (demand)	2.723	0.000 ²	2.723	2.723
Lighting	2.723	0.000	2.723	2.723

The Base Fuel Cost Component includes .020 cents per kWh to recover the under-recovered base fuel cost balance as of June 30, 2010, which is projected to be \$1,283,207. This amount consists of historical under-recovered costs for the period March 1, 2009 through February 28, 2010, offset by the estimated over-recovery for the period of March 1, 2010 through June 30, 2010.

The Settlement Agreement provides that the Parties will continue to work together in good faith to evaluate a time-of-use fuel factor mechanism for PEC, which would provide more accurate price signals to customers through a higher fuel factor during on-peak periods and a lower fuel factor during off-peak periods. If the Parties agree that such a time-of-use fuel factor mechanism can be developed and would be in the public interest, the Parties shall work together in good faith to attempt to fully develop such a mechanism and, if developed, to submit such proposal to the Commission for approval.

The Settlement Agreement also provides that PEC will continue to examine and make adjustments as necessary to its natural gas hedging programs in light of the changes

¹ RECD factor is .8139%

² The environmental rate for these customers is 13 cents per kW.

in the natural gas market due to the influx of shale gas reserves. The Settlement Agreement further provides that PEC will provide monthly natural gas hedging reports to the Parties.

The Settlement Agreement further provides that PEC will continue to provide to the Parties copies of the monthly fuel recovery reports currently filed with the Commission and ORS and quarterly forecasts of the expected fuel factor to be set in PEC's next annual fuel proceeding and PEC's historical over/under-recovery.

The Parties agree that any and all challenges to PEC's historical fuel costs and revenues for the period ending February 28, 2010, are not subject to further review. However, fuel costs and revenues for periods beginning March 1, 2010, and thereafter shall be open issues in future proceedings and will continue to be trued-up against actual costs in such proceedings.

After careful review of the Settlement Agreement, and after having heard the testimony of the witnesses and representations of counsel, the Commission finds that approval of the Settlement Agreement is consistent with the standards for fuel review proceedings conducted pursuant to S.C. Code Ann. § 58-27-865. The Settlement Agreement allows recovery in a precise and prompt manner while assuring public confidence and minimizing abrupt changes in charges to customers. As such, it is a reasonable resolution of the issues in this case and stabilizes the fuel factors through the last billing cycle of June 2011. Additionally, the Commission finds that the resolution espoused in the Settlement Agreement does not appear to inhibit economic development. Finally, the Commission finds and concludes that the Settlement Agreement affords the

Parties with the opportunity to review costs and operation data in succeeding fuel proceedings.

IT IS THEREFORE ORDERED THAT:

1. The fuel purchasing practices, plant operations, and fuel inventory management of PEC related to the historical fuel costs and revenues for the period ending February 28, 2010, are prudent.

2. The Settlement Agreement is hereby approved, adopted, and incorporated herein by reference, and is found to be a just and reasonable resolution of the issues in this case.

3. PEC shall set its fuel factor (not including the environmental component or the RECD component) at 2.723 cents per kWh effective for bills rendered on and after the first billing cycle of July 2010, and continuing through the billing month of June 2011.

4. PEC shall set its environmental component billing factor at 0.042 cents per kWh for the Residential class, 0.048 cents per kWh for the General Service (non-demand) class, and 13 cents per kW for the General Service (demand) class for bills rendered on or after the first billing cycle of July 2010 and continuing through the billing month of June 2011.

5. PEC shall set its Residential Service Energy Conservation Discount (RECD) component billing factor at .022 cents per kWh for the residential class for bills rendered on or after the first billing cycle of July 2010 and continuing through the billing month of June 2011. The RECD component allows PEC to reflect monthly fuel revenues

which account for a 5 percent discount provided to approximately 16 percent of PEC's South Carolina residential sales under approved Rider RECD-2B.

6. The Parties shall continue to work together in good faith to evaluate a time-of-use fuel factor mechanism for PEC. If the Parties agree that such a time-of-use fuel factor mechanism can be developed and would be in the public interest, the Parties shall work together in good faith to attempt to fully develop such a mechanism and, if developed, to submit such proposal to the Commission for approval.

7. The Parties shall abide by the terms of this Settlement Agreement.

8. PEC shall file an original and ten (10) copies of the South Carolina Retail Adjustment for Fuel and Variable Environmental Costs Rider and all other retail Tariffs within ten (10) days of receipt of this Order with the Commission and ORS.

9. PEC shall comply with the notice requirements set forth in S.C. Code Ann. § 58-27-865.

10. PEC shall utilize the methodology for developing the environmental component billing factor for each rate class to recover "variable environmental costs" under S.C. Code Ann. § 58-27-865(A)(1) established by the Settlement Agreement in Docket No. 2007-1-E and approved in Order No. 2007-440.

11. PEC shall continue to file the monthly reports as previously required.

12. PEC shall continue to examine and make adjustments as necessary to its natural gas hedging programs and submit monthly natural gas hedging reports to the Parties.

13. PEC shall, by rate class, account monthly to the Commission and ORS for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit.

14. PEC shall submit monthly reports to the Commission and ORS of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

15. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Elizabeth B. Fleming, Chairman

ATTEST:

John E. Howard, Vice-Chairman

(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2010-1-E

IN RE:

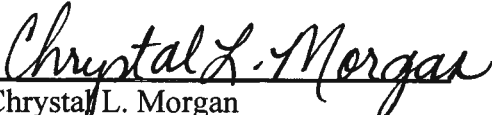
Annual Review of Base Rates for Fuel Costs of)	
Carolina Power and Light Company d/b/a)	CERTIFICATE OF
Progress Energy Carolinas, Incorporated)	SERVICE
)	

This is to certify that I, Chrystal L. Morgan, have this date served one (1) copy of the **PROPOSED ORDER** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

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Chrystal L. Morgan

June 14, 2010
Columbia, South Carolina